2009 Annual Report

Lapp | Local Authorities Pension Plan

LAPP was established in 1962 as a defined benefit pension plan for employees of local authorities in Alberta. These include organizations from the health care sector, cities, towns, villages, municipal districts, colleges, school boards and other public sector organizations.

LAPP collects contributions from employers and employees, invests the contributions in equities, bonds, and other investment vehicles, and uses investment income and contributions to pay pension benefits to retirees.

The Minister of Alberta Finance and Enterprise is the legal trustee of the Plan, which is governed by a 14 member Board of Trustees. The Board includes six employee nominees, six employer nominees, and one nominee each from retirees and government.

For more information on LAPP visit www.lapp.ca.

Contents

Alberta's largest public sector pension plan.

Highlights

Net assets available to provide member benefits (pensions): $15.4 billion, up from $13.5 billion in 2008.

Accrued benefits (liabilities): $19.4 billion, up from $17.9 billion in 2008.

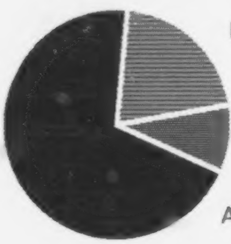
Deficiency: $4.0 billion, down from $4.4 billion in 2008.

Funding status: 79.4%, up from 75.4% in 2008.

Total membership: 199,849, up from 189,149 in 2008.

Total number of participating employers: 418, up from 411 in 2008.

Membership
December 31, 2009

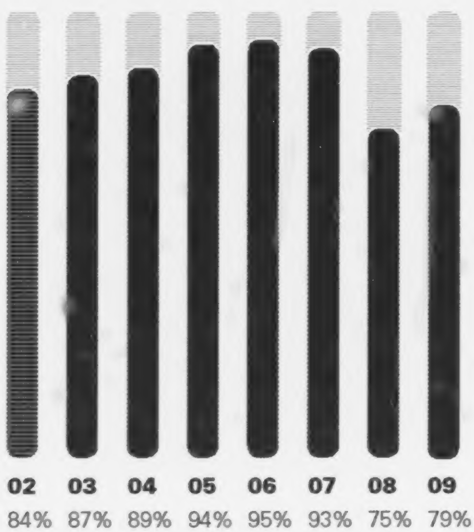


Total: 199,849

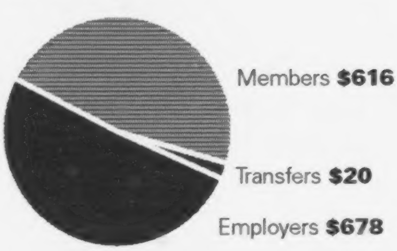
Summary of Net Assets Available for Benefits and Accrued Benefits
(As at Dec 31, 2009)

(thousands)	2009	2008
Net Assets Available for Benefits		
Net assets available for benefits	$ 15,367,486	$ 13,517,229
Accrued Benefits		
Value of accrued benefits	$ 19,366,100	$ 17,931,200
Deficiency	$ (3,998,614)	$ (4,413,971)

Funding Status
(% funded by year)

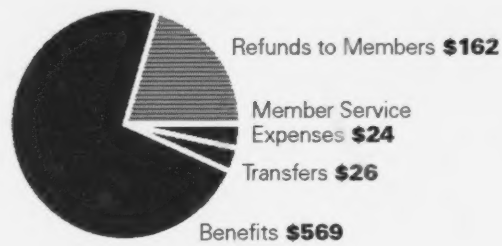


Pension Contributions and Transfers
($ millions)



Total: $ 1,314 million

Pension Payments
($ millions)



Total: $ 781 million

Plan Expenses
($ millions)

Total: $ 87.8 million

Administration and governance costs – $125 per member

- APS costs to administer the Plan: $21.8 million
- Governance expenses for overseeing the Plan: $2.5 million

Investment costs: $327 per member

- Alberta Investment Management costs to manage the Plan's funds, including external managers: $63.5 million

LAPP Board of Trustees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LAPP's Investment Portfolio

Canadian Examples

Tim Hortons: Founded in 1964, Tim Hortons is Canada's largest food service provider. This Canadian icon has over 3,500 restaurants in Canada and the US, and an approximate 75% market share of the Canadian coffee and baked goods sector.

Stantec Inc.: Stantec is a professional services company and one of the leading firms in the North American design and consulting industry. Headquartered in Edmonton, Stantec employs over 10,000 individuals in more than 130 offices across North America.

Viterra Inc.: Viterra provides premium quality ingredients to leading global food manufacturers. Viterra's operations are defined by 5 interrelated business areas: grain handling and marketing, agri-products, food processing, feed products and financial services.

International Examples

Celanese Corp.: Celanese is one of the world's largest producers of acetyl products and a leading global producer of high performance engineered polymers. The firm is based in Dallas, Texas and employs approximately 7,400 employees worldwide.

TNT: TNT is Europe's leading document, parcel and freight delivery company, serving nearly 200 countries with its door-to-door express delivery services. TNT is also the Netherland's incumbent mail provider.

Vodafone Group: Vodafone is a British multinational mobile network operator headquartered in Newbury, Berkshire, United Kingdom. It is the world's largest mobile telecommunication network company, based on revenue, and has a market value of approximately £75.0 billion.

Nestle SA: Nestle is a multinational packaged foods company founded and headquartered in Vevey, Switzerland. From originally selling infant food products, Nestle has grown to become the world's largest food company.

GlaxoSmithKline: GSK, as it is often referred to, is the world's second largest pharmaceutical company, by employees. Research is focused in areas such as anti-infectives, central nervous system, respiratory, gastro-intestinal/metabolic, oncology, and vaccine products

Banco Santander: Originating in Santander, Cantabria, Spain, Banco Santander is one of the world's largest banks in terms of market capitalization.

Heineken International: A Dutch brewing company founded in 1864, Heineken owns and manages one of the world's leading portfolios of beer brands.

Unilever: One of the most well known multinational companies in the world, Unilever owns many of the world's consumer product brands in foods, beverages, cleaning agents and personal care products. Of the over 400 brands under Unilever's umbrella, some of the more recognizable names include Dove, Lipton, and Ben & Jerry's ice cream.

Message from the Chair

The economic turbulence that characterized much of 2008 carried on into 2009, and Trustees on the LAPP Board prepared themselves for a second consecutive year of challenging financial conditions. The Plan's investment situation continued to deteriorate in January and February, and it wasn't until mid-March that things began to change. The banking industry achieved a measure of stability, stock markets surged and, by the end of the year, LAPP had recovered most of the value lost in the turmoil of 2008.

Through the year, the LAPP Board actively monitored the changing economic conditions. Our asset mix – the combination of stocks, bonds, real estate, infrastructure and other assets used to maximize our investment returns – was updated in April. Benchmarks were reviewed to help us understand how our investments were performing and, as a precautionary move, we examined some specific plan modifications to control costs and better protect benefits for retiring members.

A major organizational change at LAPP was the hiring of our new CEO, while policy changes included the introduction of new rules to help part-time members consolidate their hours of service. A number of Alberta-based employers joined the Plan over the year, a clear indicator of LAPP's continuing good health.

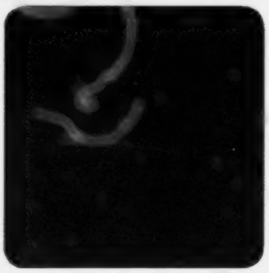
If I was to sum up 2009 in just a sentence, it would be thus: the year was good and our investment returns were solid, but our liabilities continued to grow.

The coming 12 months will present more challenges to our Board of Trustees as they work to keep the Plan safe and secure. My thanks to each of them for their commitment, continuing hard work and diligence.

I am also pleased to recognize and thank the employees of Alberta Investment Management Corporation, Alberta Pensions Services Corporation and the LAPP management team for their ongoing contributions to the health and stability of the Plan.

[Original signed by Grant Howell]
Chair

Message from the CEO



Much has been said about the troubled times that faced the pension world in 2009. In fact, some have called it one of the most turbulent periods in modern economic history. Over the span of 12 months, we experienced everything from challenging economic conditions to record-breaking investment returns – sometimes within the same month. It was a difficult time to have billions of dollars invested around the world.

While it was hard on us, it was much more difficult for our nearly 200,000 members, retirees and deferred members. Although their pensions were never in any danger, media reports had many convinced that a new, austere economic reality was here to stay.

Thankfully, that didn't happen, as conditions improved steadily over much of the year. The value that LAPP's investments lost in 2008 was almost fully recovered by the end of 2009.

LAPP now finds itself in a challenging, but not impossible situation. While the stock markets were fluctuating, our liabilities – the amount of money we owe to our members as they retire – continued to grow. The overall financial health of the Plan improved somewhat in 2009, but we still have some distance to go before we reach fully funded status.

LAPP continues to do everything in its power to improve the Plan's finances. We reviewed our Statement of Investment Policies and Goals, to give our investment managers up-to-date instructions on how the pension funds should be invested on a long-term basis. We cut costs in a number of areas, including a significant reduction in the number of printed copies of this annual report. We strengthened our actions to address the so-called 54/11 withdrawals, which continue to cost the plan a substantial amount of money. All these initiatives, and several others, were designed to improve the financial health of LAPP. Action continues on all fronts.

To further address the shortfall and maintain long-term financial stability, the Board boosted contribution rates for 2009 and announced further rate increases in 2010, 2011 and 2012. Employers and members told us they wanted more advance notice of rate increases and, as a direct result of this input, we have spread the most recent increase over a three-year span.

Looking forward, security of the Plan continues to be our top priority. The Board will be putting a five-year strategic plan into place in 2010, and is working closely with the Plan's actuary on additional ways to improve the long-term funding of the Plan. We have our work cut out for us, but we have the necessary skills and motivation to get the job done.

We'll keep you posted as we progress on this journey.

[Original signed by Meryl Whittaker]
President and Chief Executive Officer

LAPP says thank you
and bids farewell to:

Trustee Richard Martin
(Management and Out-of-Scope nominee). Richard served 11 years on the Board and made significant contributions to LAPP's Audit Committee and the Board's understanding of financial processes.

Trustee Tony Olmsted
(United Nurses of Alberta nominee). Tony was on the Board for 4 years, and served as Vice Chair.

Ron Liteplo
(Chief Executive Officer).
Ron was instrumental in building the administrative organization that supports LAPP and its Board of Trustees. We are grateful for his leadership and contributions over the past 12 years.

Management Discussion and Analysis

Management Discussion and Analysis

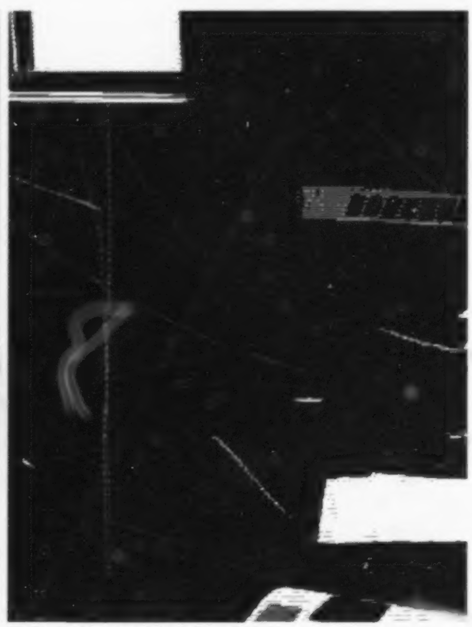
One topic dominated much of the year for LAPP – the ongoing effects of the 2008 credit crisis. In January, the investment portfolio continued to lose ground and, by the end of February, the portfolio had lost an additional 3% of its value. However, by mid-March, markets were signalling the first signs of a recovery that would ultimately become a record-breaking run.

What happened? Simply put, confidence returned to the market place. Government recovery and bailout programs infused cash into the economy, liquidity returned to the banking system and sidelined investment funds flowed back into the stock markets. By the end of the year, LAPP had recovered enough to post a 9.4% gain – not enough to recover to our pre-credit crunch financial health, but enough to restore optimism in the Plan.

This return strengthened our financial position, especially when compared to our previous year's performance. LAPP started 2009 with assets of $13.52 billion dollars and ended up with $15.37 billion – a net increase of $1.85 billion dollars over the year. Our higher contribution rates contributed some of that increase, but not as much as one might expect – the vast majority of increases were generated by investment returns.

LAPP's asset mix was designed to offer protection when times got tough, and it worked well through the darkest days of the credit crunch. However, the investments that offered protection in 2008 were less able to capitalize on the rally in 2009, resulting in underperformance in certain areas.

Much attention is paid to investment returns, but they are really only half of the equation. Our liabilities – the amount of money we ultimately must pay to our retirees – continued to climb through the year. In the financial statements, we estimate our liabilities to be $19.4 billion dollars, but a more current figure will be available in July with the completion of our actuarial valuation.



LeeAnne Tedder, Administrative Assistant for Chinook High School

Because of the unprecedented economic conditions, investment-related matters dominated the year for the LAPP Board. Several specific activities were undertaken to either monitor investment conditions more closely or to take advantage of fluid market conditions. Those activities, and several others that the Board undertook, are outlined below.

Plan Governance

A key element of running a pension plan is the "governance", or oversight function – the active monitoring of all elements of the pension plan. Through the use of an external evaluation firm, CEM Benchmarking Inc., the Board confirmed that its own governance processes and those of its service providers (Alberta Pensions Services Corp. and Alberta Investment Management Corp.), were appropriate for a pension plan of its size. Further, several of LAPP's current practices were considered to be "world class".

The Board also spent time reviewing the risks that the Plan was exposed to and understanding the best ways of managing those risks. Further, its two main service providers identified and made progress on significant risk management processes over the year.

To keep in close touch with the Boards of several other Alberta-based public sector pension plans, LAPP joined a new group called the Joint Council of Board Chairs. Through participation, the LAPP Chair and CEO will share information and work on projects of mutual interest and benefit.

The LAPP Board also met with the Stakeholder Consultation Group (SCG) on two occasions. Comprised of representatives of LAPP's largest employers, unions and associations, the SCG meetings help the Board focus in on matters of importance to key stakeholder groups.

The Alberta Government created a new set of standards for all public agencies to follow. The Alberta Public Agencies Governance Act was passed in 2009, and LAPP will comply with all requirements of the Act as they are proclaimed.

Plan Design

The Board continued to address the issue of members leaving the Plan early to withdraw the commuted value of their pension. Potential changes were reviewed to respond to this challenge, and the Board continues to seek feedback from stakeholders on this important issue.

The rules surrounding the division of a pension when a marriage breaks down were simplified, and several changes were reviewed to improve the pension option known as "coordination". Consideration of a new phased retirement program was undertaken and improvements to the employer withdrawal process were readied for final approval. In addition, employees who work more than one part-time job with the same LAPP employer will now find it easier to combine their employment hours into pensionable service.

To assess their general satisfaction with LAPP and the workings of the pension plan, a survey of employers, unions and associations was conducted in late spring. The vast majority of those surveyed were pleased with the service LAPP provides and the general design of the Plan. Seeking feedback is an important part of pension plan governance, and it will continue throughout 2010.

Management Discussion and Analysis

Plan Funding

Contribution rates were raised in 2009, and subsequent rate increases were announced for 2010, 2011 and 2012. These increases, combined with the positive investment returns earned over the year will help to improve LAPP's overall financial health.

The pension plan is currently in a deficit situation, and has been since 2001. LAPP, along with most other pension plans, maintains two sets of pension liability numbers: the funding numbers, and the financial statements contained in this annual report. Because these two sets of numbers are prepared at different times of the year for different purposes and use different sets of assumptions, they tell a slightly different story about the size of the deficit.

Financial statements use best estimate assumptions and show the market value position of the Plan at the end of the year. The funding numbers are used to establish contribution rates. The assumptions used for funding purposes include a margin for adverse deviation, and we also smooth the gains or losses over a three-year period to reduce major shifts in contribution rates.

Plan Investments

Our investment return this year of 9.4% exceeded our currently required rate of return by several percentage points. We also note that over the past 16 years, our average investment returns of 7% were roughly equal to our benchmark returns.

It is up to the Board to establish investment policy, and up to Alberta Investment Management Corporation (AIMCo) to implement that policy. This year, the Board reviewed the results of an Asset Liability study and subsequently changed LAPP's mix of investments, or "asset mix". This is one of the most important decisions a pension plan Board can make because the asset mix is responsible for about 90% of the actual investment returns. The mix is available for review at www.lapp.ca, as part of the Statement of Investment Principles and Goals. Going forward, the Board will monitor the effectiveness of its asset mix on a regular basis and make changes as required.

Related to the asset mix are the benchmarks the Board uses to evaluate how its investments are performing. LAPP exceeded some of its specific benchmarks in 2009 and fell short of others. For example, we exceeded our fixed income benchmarks because of good performance by most corporate bond sectors and provincial bonds. We fell short of our Canadian equities benchmarks because our portfolio was underweight in the Canadian small cap market and because the stocks in our portfolio were not the top performers for the year. A complete review of LAPP's benchmarks was undertaken in the year and will be finalized in 2010.

Our investment manager (AIMCo) underwent several changes, most notably the introduction of more in-house investment management services. External managers are expensive, and AIMCo's efforts to reduce the number of external managers saved LAPP several million dollars in 2009. Their efforts to reduce costs are appreciated. A more detailed description of AIMCo's management of LAPP's investments is in the next section of this report.

Plan Administration

Alberta Pensions Services Corp. (APS) is the pension administrator for LAPP. Their services include record management, pension payments and responses to member inquiries. Significant changes included the move of their offices to a new location in south Edmonton and the introduction of a simplified annual statement. APS also experienced some higher than anticipated call volumes early in the year and took action to reduce wait times on telephone inquiries. A full report from APS is included in the next section of this report.

Communications

Member communications are a top priority with the Board, and refinements and improvements to our communications programs are always underway.

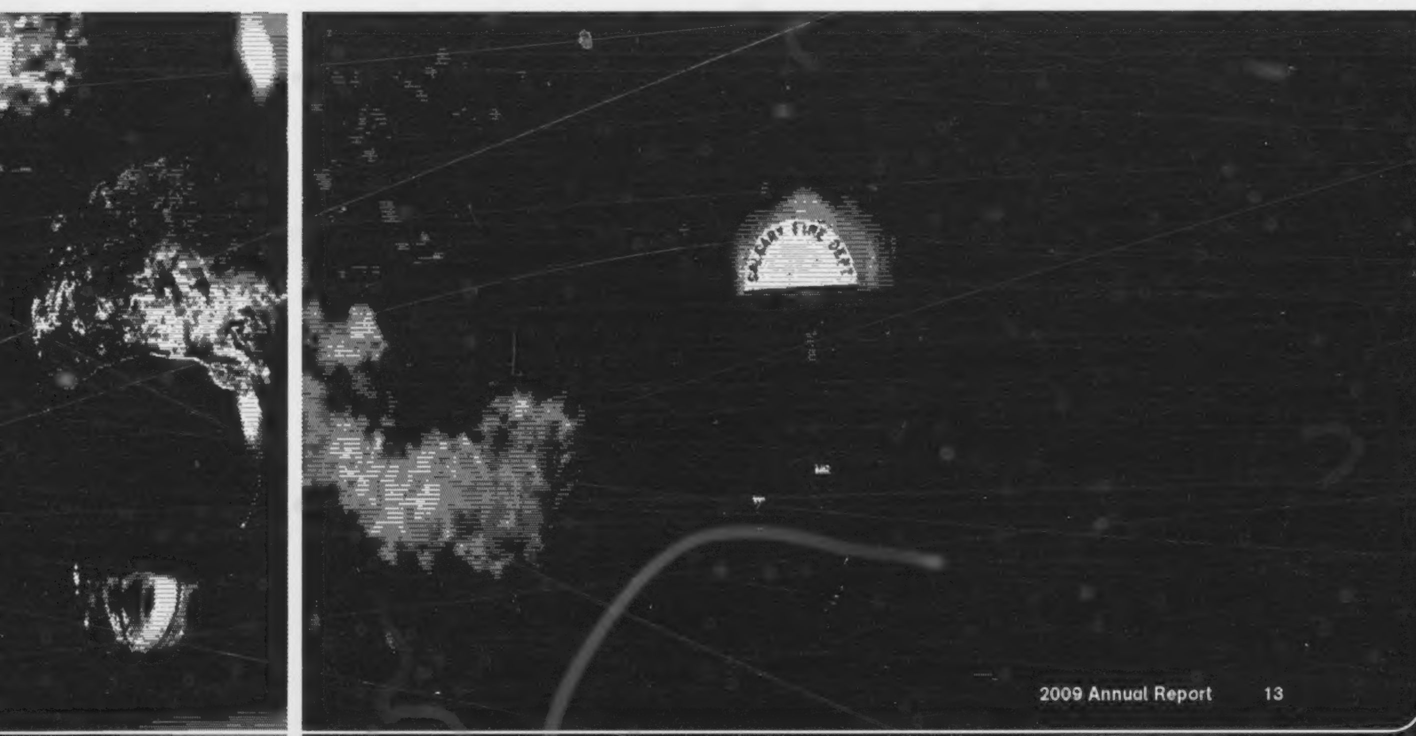
Work continued through the year on a complete redesign of the LAPP website. Watch for its launch in 2010.

The international pension survey firm mentioned earlier, CEM, identified several of LAPP's communications activities as best practices in the pension industry, and singled out LAPP's three year Strategic Communications Plan as one of the best examples of its kind in the world. Members and retirees regularly comment on how much they appreciate LAPP's efforts to keep communication materials simple and easy to understand.

Looking Forward

The LAPP Board is currently working on a Strategic Plan to guide its efforts over the next five years. New benchmarks will be in place before the year is out, and work continues on producing the clearest possible view of what LAPP's financial picture will be in the years ahead.

Scott Linsay, City of Calgary firefighter



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Deficiency: $4.0 billion, down from $4.4 billion in 2008.

Funding status: 79.4%, up from 75.4% in 2008.

Total membership: 199,849, up from 189,149 in 2008.

Total number of participating employers: 418, up from 411 in 2008.

Membership

December 31, 2009

Total: 199,849

Benefit Administration

Benefit Administration

Alberta Pensions Services Corporation (APS) performed a number of administrative services (as directed under a Pension Services Agreement with the Minister of Finance and Enterprise) for Local Authorities Pension Plan (LAPP) members, pensioners and employers in 2009.

Initiatives in 2009

To enhance client services, APS implemented the following initiatives in 2009:

Member Services—APS believes members identify with their pension plan from sign-up to sign-off. In the summer of 2009, a phone line dedicated to LAPP was introduced to the Member Services Centre, making it easier for members to connect with LAPP pension benefits specialists. Members who call on this line are welcomed to LAPP and offered assistance with their plan.

mypensionplan Enhancements—APS made the pension experience easier for **mypensionplan** users in 2009 by increasing access to plain language definitions of complex pension terms. There were 29,658 members registered in **mypensionplan**, a secure website for members, as of December 31, 2009.

Employer Services—To improve compliance, employers received focused training on year-end processes, supported by online tutorials.

Disaster Recovery Planning—If an emergency or disaster strikes, clients must have confidence they will continue to have access to critical pension services. Several successful disaster recovery and business continuity exercises were held throughout the year to ensure APS is prepared to deliver services despite unforeseen incidents.

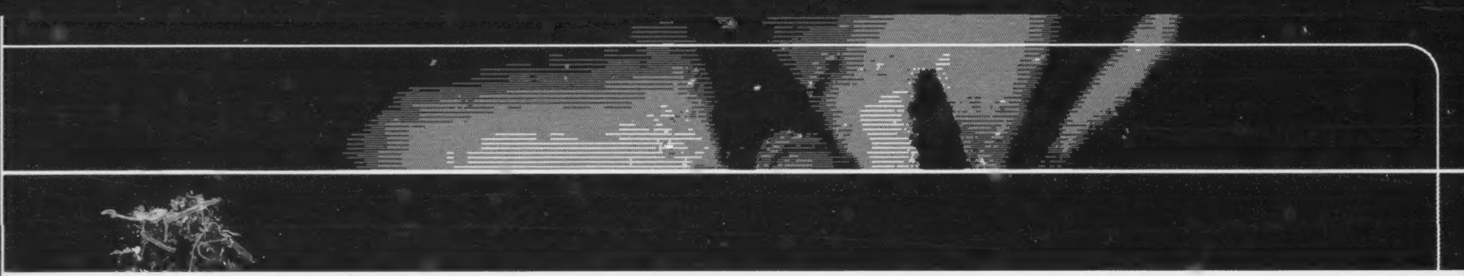
New Name and New Location—Effective January 1, 2009, Alberta Pensions Administration changed its name to Alberta Pensions Services Corporation to emphasize the focus on service. The name change was publicly launched in 2009 to coincide with a move to southwest Edmonton. The new building supports free designated parking for clients, more space for one-on-one consultations with pension representatives, and multi-functional boardrooms. Over the long-term, leasing costs will be lower than if APS had maintained its downtown office.

***Employment Pensions Plans Act Regulations* (EPPA)**—Some pension plan regulations changed effective July 1, 2009 to align with the EPPA. Regulations now allow a pension partner to waive his or her right to the death benefit of a working pension plan member. Members who leave employment and qualify as non-residents of Canada can now apply to be paid the commuted value of their pension. APS put in place the processes and communications materials needed to administer these changed regulations. Additional information is available on the LAPP website: www.lapp.ca.

Contributions to LAPP

In 2009, LAPP's total contributions were $1,314 million.

	2009		2008	
	$ millions	%	$ millions	%
Employer Contributions	678	51	545	51
Member Contributions	616	47	504	47
Transfers from other Plans	20	2	22	2
TOTAL	1,314		1,071	



Payments from LAPP

In 2009, LAPP's total payments were $781 million.

	2009		2008	
	$ millions	%	$ millions	%
Pension Benefits	569	73	525	69
Refunds to members	162	21	196	26
Transfers to other Plans	26	3	21	3
Member Services Expenses*	24	3	21	2
TOTAL	781		763	

*Includes APS' operating costs, Board and plan-specific costs.

LAPP Members, Pensioners and Employers

LAPP currently serves 418 employers and a total of 199,849 active and deferred members and pensioners. In 2009, 17,403 people joined the Plan, 2,429 members retired and 9,227 people terminated from the Plan.

LAPP Expenses

To determine the per member costs, APS uses a cost-sharing formula. This formula allocates administration-operating costs among the pension plans serviced by APS according to a calculation approved by the Minister of Finance and Enterprise.

LAPP's share of APS' costs were $21.8 million in 2009, or $112 per LAPP member, based on average membership.

Cost-of-Living Adjustment (COLA) to Pensions in Pay

After a member begins to receive a pension, a cost-of-living adjustment is applied every year the *Alberta Consumer Price Index (ACPI)* increases. The cost-of-living adjustment is equal to 60 per cent of the yearly change of the ACPI.

The COLA for pensioners who retired before January 1, 2009 is 0.06 per cent. For those who retired during 2009, this COLA increase was prorated depending on the retirement month. Information about COLA and *ACPI* calculations is available at www.lapp.ca.

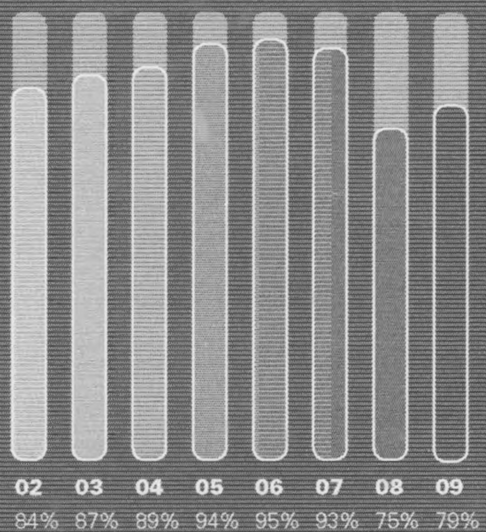
The Year Ahead

In 2010, APS plans to:

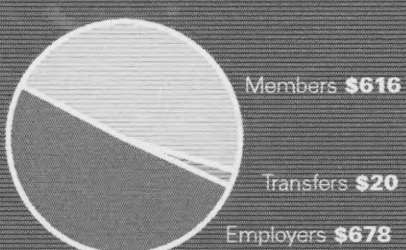
- introduce newly designed member annual statements containing a more clear and concise snapshot of a member's pension benefit;
- provide more self-service through **mypensionplan** by offering members the opportunity to go green with their annual statements. Members who sign up for this service will receive an e-mail notification when their statement is available online and will not receive a paper copy in the mail. Members will also have the option of updating their beneficiary information online;
- perform a thorough review of the leave without pay purchase process and products;
- offer members and employers online registration for workshops and consultations; and
- begin work on redesigning the Plan's website.

For further information on the Plan or to access the **mypensionplan** site, please refer to LAPP's website at www.lapp.ca.

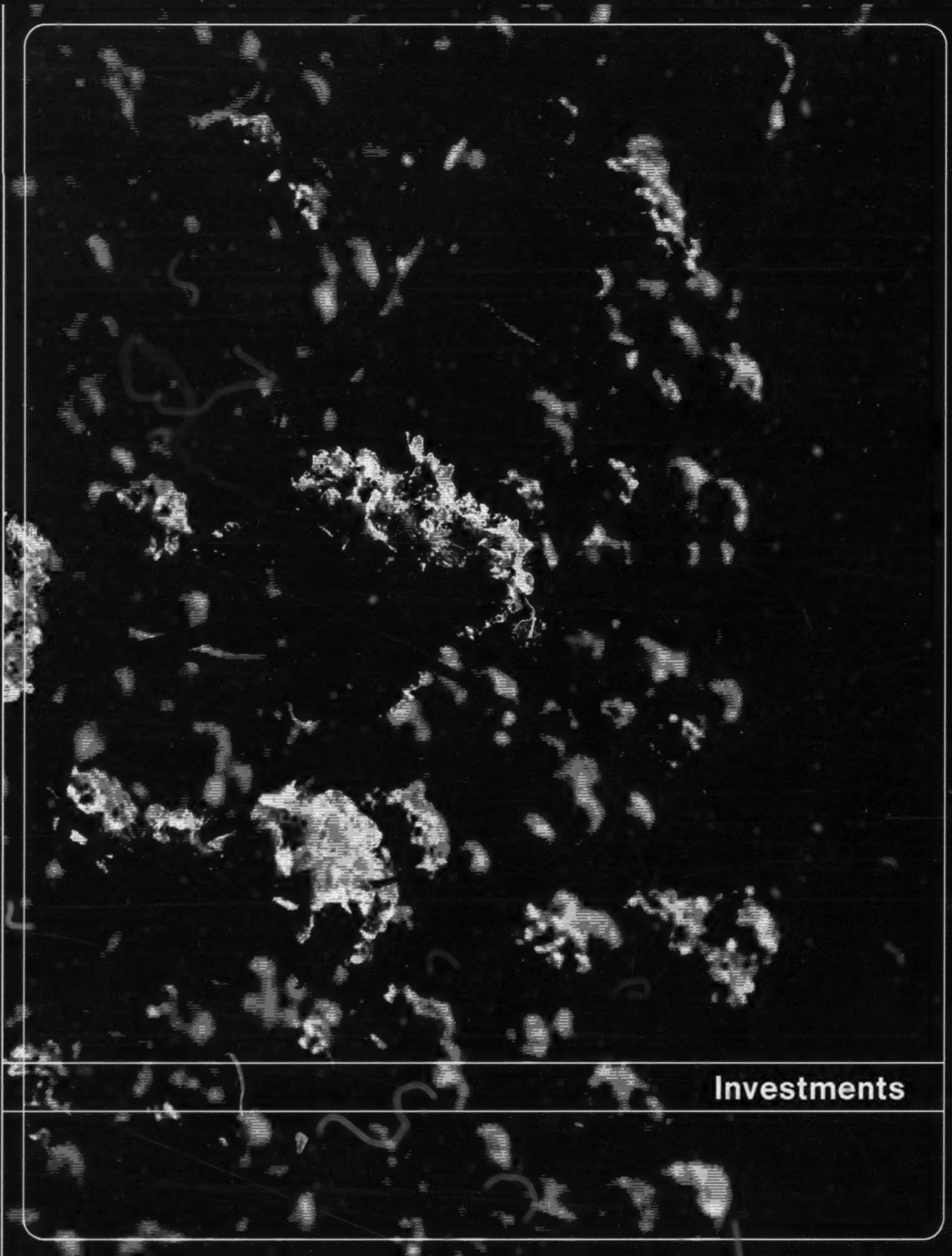
Funding Status
(% funded by year)



Pension Contributions and Transfers
($ millions)



Total: $ 1,314 million



Investments

Investment Commentary by AIMCo

Investment Management Structure

Alberta Investment Management Corporation (AIMCo) provides the day-to-day investment services for LAPP's investment portfolio. AIMCo invests LAPP's assets for the benefit of its members, in accordance with the Board of Trustees' Statement of Investment Policy and Goals (SIP&G). AIMCo manages the majority of the Plan's investments internally through pooled investment funds. However, for reasons such as greater diversification, access to external expertise and specialized knowledge and reduced operational complexity, some investments are managed by third party investment managers selected and monitored by AIMCo.

Market Review

2009 marked a significant rebound in world equity markets after last year's severe decline brought on by the global recession, credit crisis and decline in commodity prices. The recovery in the investment markets was driven by an infusion of financial liquidity from governments around the world and a reduction in the extreme risk averse behavior of investors. Oil prices also began to stabilize and recover from last year's roller coaster increase and decline.

Overall, world equity markets were up significantly in 2009 compared to last year. In Canada, the S&P/TSX Composite Total Return Index posted a gain of 35.1% compared to a loss of 33.0% in 2008. In the United States, the S&P 500 increased by 8.1% in Canadian dollars (26.5% in U.S. dollars) compared to a loss of 21.9% in Canadian dollars (37.0% U.S. dollars) in 2008. U.S. equity returns were lower in Canadian dollars due to the strengthening of the Canadian dollar during the year against the U.S. dollar. Outside of North America, the MSCI EAFE Index posted a positive return of 12.6% in Canadian dollars compared to a loss of 29.8% in Canadian dollars in 2008.

The value of the Plan's foreign investment portfolio is exposed to foreign currency risk primarily through its investments in non-Canadian equities. The fair value of foreign investments decreases in Canadian dollars when the Canadian dollar strengthens against the foreign currency. For example, for every one cent change in the U.S. dollar against the Canadian dollar the fair value of the Plan's U.S. equity portfolio, totaling $1.46 billion (2008: $1.12 billion, Canadian) changes by approximately $14 million. At December 31, 2009, one U.S. dollar was worth $1.05 Canadian compared to $1.22 Canadian at the beginning of the year. As a result of the stronger Canadian dollar, U.S. dollar investments decreased in value over the year when translated into Canadian dollars resulting in lower foreign equity returns.

In 2009, the U.S. Federal Reserve funds rate remained unchanged throughout the year at a historic low of 0.25%. In Canada, the target overnight rate dropped to a record low of 0.25% from 1.5% at the beginning of the year. The Canadian bond market represented by the DEX Universe Bond Index posted a return of 5.4% in 2009, down from 6.4% in 2008. Over ten years, the annualized return from this index was 6.7%.

Long-Term Investment Return Expectation

For funding purposes, the Board's actuary targets a long-term investment return of 6.1% per annum. This assumes a real rate of return of 3.6% and long-term annual inflation of 2.5%.

By comparison, LAPP's investments gained 9.4% in 2009, up from a loss of 15.1% in 2008. Over eight years, the annualized return from the Plan's investments was 5.2%. Over sixteen years, the annualized return of the Plan was 7.0%.

Asset Mix

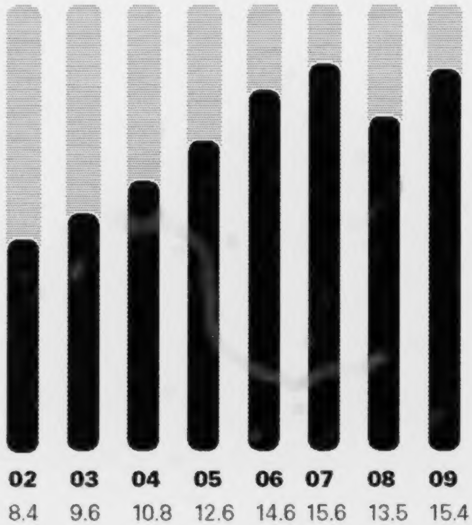
LAPP's Board sets the asset mix policy for the Plan which includes fixed income securities, equities and inflation sensitive and alternative investments.

The table below compares the target policy asset mix with the actual asset mix at December 31, 2009 and 2008.

	Target Policy Asset Mix %	Actual 2009%	Actual 2008%
Fixed Income			
Cash & Short term	0.5	2.3	2.0
Universe Bonds and Private Mortgages	8.0	8.1	8.0
Long-term Bonds	20.0	20.4	19.9
Total	28.5	30.8	29.9
Equities			
Canadian Equities	11.0	12.2	14.8
Global Equities	17.5	28.1	26.0
Hedge Funds	3.5	3.8	4.1
Private Equities	7.5	3.3	3.7
Total	39.5	47.4	48.6
Inflation Sensitive and Alternatives			
Real Estate	14.5	11.8	12.1
Real Return Bonds	7.0	5.8	5.4
Private Income	7.5	3.7	3.5
Timberland	3.0	0.5	0.5
Total	32.0	21.8	21.5
Total	100.0	100.0	100.0

Illiquid asset classes, such as private equities, private income and timberland investments, are not always readily available for purchase. As a consequence, it will take longer to transition out of equities and into these private investments.

Market Value - Investments
(billions $)



Proxy Voting

The LAPP Board considers proxy voting to be a key element of responsible investing and that thoughtful voting is a contributor to optimizing the long term value of investments. The proxy voting function is entrusted to AIMCo. Research and proxy voting have been outsourced by AIMCo to Glass Lewis, independent advisers that specialize in providing proxy-related services to institutional investors. While AIMCo may review and utilize the recommendations of the research provider in making proxy voting decisions, they are in no way obligated to follow such recommendations. Glass Lewis provides research and analysis for 15,000 companies in 70 countries.

AIMCo believes that good governance enhances long term shareholder value and demonstrates that belief as a member of the Canadian Coalition for Good Governance (CCGG). Membership assists in the monitoring of dissenting opinion from within the organization, leading to enriched decisions.

Investments

Risk Management System

The LAPP Board accepts that in order to meet the return objectives of the Plan, we must take on risk in the assets in which we invest. We invest in a diverse set of asset types to help improve the likelihood of achieving our desired results for a given level of risk.

Investment risk management is a central thesis for AIMCo. AIMCo seeks to measure and monitor both historic and possible future risks, allocating risk as a scarce resource to the most promising investment opportunities. AIMCo maintains a quantitative investment risk system designed to operate across all asset classes and a variety of risk types such as market risk, currency risk, and concentration risk.

As the ultimate risk to a pension plan is not being able to meet pension obligations, LAPP monitors the risk of the Plan's liabilities in relation to the investment assets. AIMCo models the risk of both assets and theoretical liabilities and reports to the LAPP Board quarterly. LAPP has established a series of limits on the risks to the Plan's funded status within our investment policies which are measured and monitored on this basis.

Investment Results

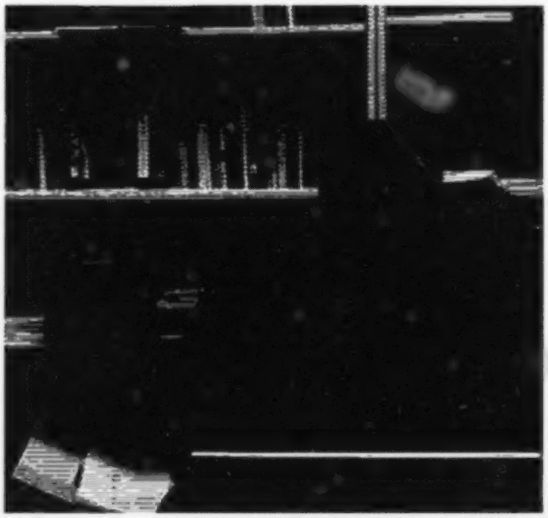
To evaluate performance and measure the value added by our investment managers from their active investment decisions such as security selection, we compare our actual investment results to our investment policy benchmark. The benchmark return represents what we could reasonably expect to earn without active management if we invested in the market indices in proportion to our policy asset mix approved by the Board. Our investment managers strive to earn more than market returns by over or underweighting specific investments in relation to the indices.

In 2009, the Plan's investments gained 9.4% which was 1.7% less than the investment policy benchmark gain of 11.1%. In other words, the value lost from active management was approximately $240 million in 2009. Over four, eight and sixteen years the Plan's investments earned average annualized returns of 2.6%, 5.2% and 7.0% respectively, compared to the policy benchmark returns of 3.6%, 5.4% and 7.1%.

Investment Returns (%)

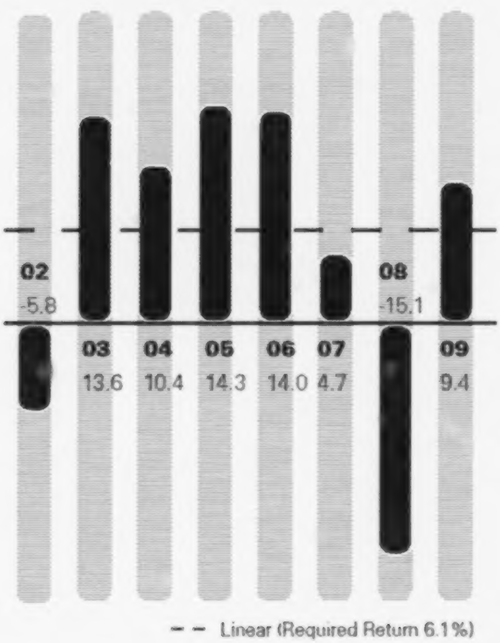
Ending December 31, 2009

	Annual Returns (%)				Compound Annualized Returns (%)		
	2009	2008	2007	2006	4 Years	8 Years	16 Years
Actual Return	9.4	(15.1)	4.7	14.0	2.6	5.2	7.0
Policy Benchmark	11.1	(10.9)	2.9	13.0	3.6	5.4	7.1
Value (Lost) Added by investment manager	(1.7)	(4.2)	1.8	1.0	(1.0)	(0.2)	(0.1)



Conrad Boehme, Division Psychologist
Westwind School Division No. 74, Cardston, AB

Annual Returns (%)
(Actual Returns by year)



Fixed Income Investments

Fixed income investments include cash and short-term investments, universe bonds, private mortgages and long bonds. Fixed income investments are used to provide cash flow and adequate liquidity to meet the Plan's financial obligations as well as match some of our liabilities for risk management purposes.

As at December 31, 2009, the Plan had approximately $4.775 billion or 30.8% of its total investments held in fixed income investments compared to $4.034 billion or 29.9% at the beginning of the year.

Fixed income investments are actively managed to generate extra returns over their respective benchmarks.

Overall, fixed income investments earned a return of 5.5% in 2009, 3.1% more than the combined benchmark return of 2.4%.

The actual returns from these investments in comparison to the benchmark return are shown below.

Total Fixed Income Investments (%)

	Actual Return	Benchmark Return	Value Added (Lost)
1 Year	5.5	2.4	3.1
4 Years	3.2	4.2	(1.0)

Cash and Short-Term (%)

	Actual Return	Benchmark Return	Value Added (Lost)
1 Year	1.9	0.6	1.3
4 Years	4.1	3.1	1.0

Long-Term Fixed Income (%)

	Actual Return	Benchmark Return	Value Added (Lost)
1 Year	6.1	2.4	3.7
4 Years	3.2	4.2	(1.0)

Equities

This asset class represents $7.350 billion or 47.4% of our total investments at December 31, 2009 compared to $6.553 billion or 48.6% at the beginning of the year. Equities include publicly traded Canadian and foreign equities, hedge funds and private equities.

Canadian Public Equities

At December 31, 2009, Canadian equities represented $1.893 billion or 12.2% of our total investments compared to $2.001 billion or 14.8% at the beginning of the year.

The Canadian equity portfolio is managed primarily through the Canadian Equities Master Pool which includes passive and actively managed strategies.

The actual gain from Canadian equity investments in 2009 was 32.4%, 11.5% less than the benchmark gain of 43.9%.

Canadian Public Equities (%)

	Actual Return	Benchmark Return	Value Added (Lost)
1 Year	32.4	43.9	(11.5)
4 Years	3.3	4.0	(0.7)

Foreign Public Equities

At December 31, 2009, foreign public equities comprised $4.352 billion or 28.1% of the Plan's total investments compared to $3.502 billion or 26.0% at the beginning of the year.

The foreign equity portfolio includes passive and actively managed investments in the U.S., Europe, Australasia and Far East (EAFE) and emerging markets. The foreign equity portfolio is managed primarily through the Global Equity Master Pool (86%) with smaller allocations to the Portable Alpha U.S. Equity Pool (7%), Emerging Markets Equity Pool (1%) and overlay strategies (6%).

The Plan's actual gain from foreign equity investments in 2009 was 15.9%, 3.1% more than the benchmark gain of 12.8% measured in Canadian dollars.

Foreign Public Equities (%)

	Actual Return	Benchmark Return*	Value Added
1 Year	15.9	12.8	3.1
4 Years	(1.4)	(1.9)	0.5

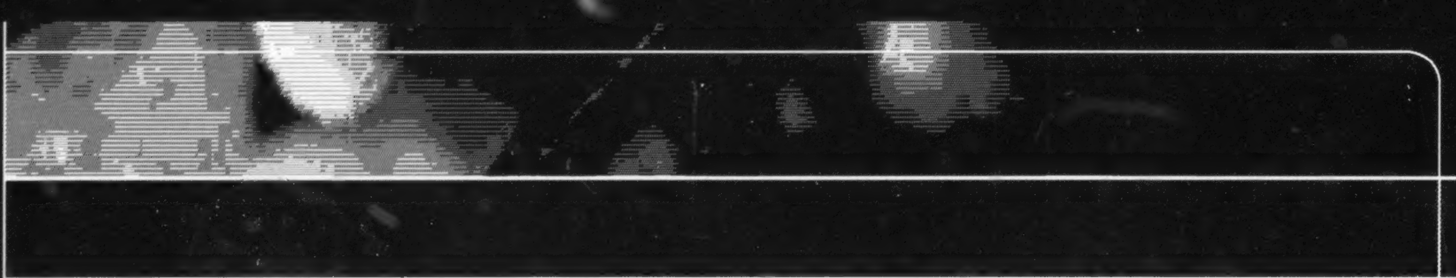
*The benchmark for foreign public equities combines the S&P 500 Index, Russell 2500 Index, and the MSCI EAFE Index. The actual returns from the developed and emerging market components of foreign equities are compared to the same benchmark.

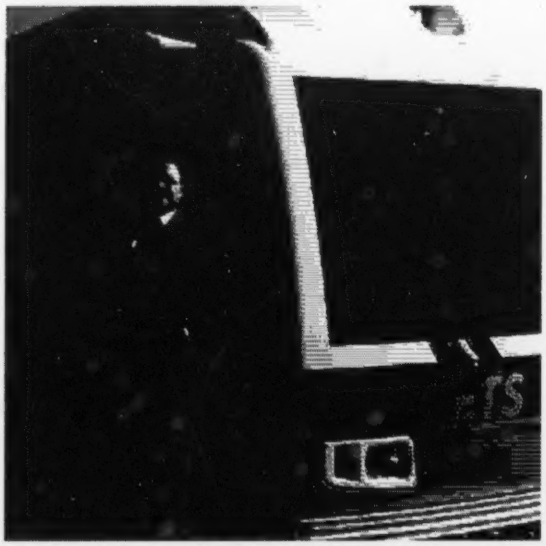
Global Developed Public Equities (%)

	Actual Return	Benchmark Return	Value Added
1 Year	15.3	12.8	2.5
4 Years	(1.5)	(1.9)	0.4

Emerging Markets (%)

	Actual Return	Benchmark Return	Value Added
1 Year	55.8	12.8	43.0
4 Years	6.3	(1.9)	8.2





Barry Shaw, LRT Instructor with Edmonton Transit

Hedge Funds

At December 31, 2009, absolute return strategies (hedge funds) comprised $591 million or 3.8% of the Plan's total investment portfolio compared to $558 million or 4.1% at the beginning of the year. This class of externally managed investments encompasses a wide variety of strategies with the objective of realizing positive returns regardless of the overall market direction. A common feature of many of these strategies is buying undervalued securities and selling short overvalued securities.

In 2009, hedge funds gained 16.7%, 9.7% more than the policy benchmark gain of 7.0%.

Absolute Return Strategies (%)

	Actual Return	Benchmark Return	Value Added (Lost)
1 Year	16.7	7.0	9.7
4 Years	0.7	7.7	(7.0)

Private Equities

At December 31, 2009 private equity investments comprised $514 million or 3.3% of the Plan's total investment portfolio compared to $492 million or 3.7% the previous year. Private equities include merchant banking investments. Merchant banking transactions include expansion capital, acquisition financing, management buyouts, family succession, turnaround financings, project financings and leverage reductions.

In 2009, private equities lost 8.2%, 17.2% below the policy benchmark gain of 9.0%.

Private Equities (%)

	Actual Return	Benchmark Return	Value Lost
1 Year	(8.2)	9.0	(17.2)
4 Years	6.4	9.7	(3.3)

Inflation Sensitive and Alternative Investments

Inflation sensitive and alternative investments include real estate, real return bonds, private income and timberland.

Overall, inflation sensitive and alternative investments lost 1.3% in 2009, 5.7% less than the combined benchmark return of 4.4%.

Inflation Sensitive & Alternative Investments (%)

	Actual Return	Benchmark Return	Value Added (Lost)
1 Year	(1.3)	4.4	(5.7)
4 Years	8.0	7.2	0.8

Investments

Real Estate

At December 31, 2009, real estate investments comprised $1.828 billion or 11.8% of total investments compared to $1.634 billion or 12.1% at the beginning of the year.

We invest in real estate for diversification and protection from inflation. Our real estate portfolio includes a mix of retail, office, residential and industrial properties. The focus is on quality properties featuring strong locations and tenants.

In 2009, real estate lost 7.3%, 7.2% more than the benchmark loss of 0.1%.

Real Estate (%)

	Actual Return	Benchmark Return	Value Added (Lost)
1 Year	(7.3)	(0.1)	(7.2)
4 Years	9.4	9.1	0.3

Real Estate

Top Five Real Estate Holdings
as at December 31, 2009

Property	Location	Sector
Yorkdale Shopping Centre	Toronto, Ontario	Retail
Square One Shopping Centre	Mississauga, Ontario	Retail
Place Ville Marie	Montreal, Quebec	Office
Scarborough Town Centre	Toronto, Ontario	Retail
Bow Valley Square	Calgary, Alberta	Office

Real Return Bonds

At December 31, 2009 real return bonds comprised $893 million or 5.8% of the Plan's total investment portfolio compared to $721 million or 5.4% the previous year. Real return bonds are inflation-linked fixed income instruments designed to generate a specified real rate of return (return achieved after adjustments for inflation).

In 2009, real return bonds gained 13.1%, 1.4% below the policy benchmark gain of 14.5%.

Real Return Bonds (%)

	Actual	Benchmark	Value (Lost)
1 Year	13.1	14.5	(1.4)
4 Years	3.1	3.2	(0.1)

Private Income

At December 31, 2009 private income investments comprised $572 million or 3.7% of the Plan's total investment portfolio compared to $478 million or 3.5% the previous year. Private income investments include infrastructure related projects that provide attractive returns plus inflation sensitivity with a long investment horizon. Infrastructure projects include transportation/logistics (e.g. toll roads, airports, ports and rail), power energy (e.g. contracted power generation and power transmission pipelines) and utilities (e.g. water, waste water and natural gas networks).

In 2009, private income investments gained 1.6%, 5.4% below the policy benchmark gain of 7.0%.

Private Income (%)

	Actual Return	Benchmark Return	Value Added (Lost)
1 Year	1.6	7.0	(5.4)
4 Years	12.8	7.7	5.1

Timberland

At December 31, 2009, timberland investments comprised $77 million or 0.5% of the Plan's total investment portfolio compared to $72 million or 0.5% the previous year.

Timberland investments are located primarily in Canada with a smaller investment outside of Canada. The Canadian timberland investment includes an interest in timber and related land located in the Province of British Columbia.

In 2009 the Timberland investment lost 8.8%, 13.8% less than the benchmark gain of 5.0%.

Timberland (%)

	Actual Return	Benchmark Return	Value Added (Lost)
1 Year	(8.8)	5.0	(13.8)
4 Years	8.4	5.7	2.7

Investment Expenses

The Plan recognizes portfolio management and administration expenses incurred directly by the Plan and its share of expenses through pooled investment funds. Investment services provided by AIMCo are charged directly to the Plan and to the pooled funds on a cost recovery basis. Investment services provided by external managers are charged to pooled funds based on a percentage of net assets under management at fair value or committed amounts. Fees charged by external managers are primarily regular management fees and performance/incentive based fees.

Investment services provided by AIMCo and external managers include trading of securities, portfolio research and analysis, custody of securities, valuation of securities, performance measurement, maintenance of investment systems and internal audit.

The Department of Finance and Enterprise of the Government of Alberta provides investment accounting and reporting for the Plan and treasury management services.

Investment expenses as a percentage of net assets are provided below:

($ millions)	**2009**	2008
Total investment expenses	$ 63.5	$ 66.5
Investment expenses as a percentage of net assets	0.41%	0.49%

Forward Looking Comments

There is little consensus among financial market participants regarding the direction of the global economy. With government stimulus tapering off, the onus will be on the private sector to propel the economy towards further recovery. However, the timing and extent of the change in leadership from government stimulus to private sector is uncertain, given persistently high unemployment and restrained consumer spending. In addition, increases in interest rates, which are expected in late 2010 or early 2011, may further temper economic growth. In this scenario, modest equity market returns with prevailing volatility are expected. For the long-term investor, this environment may create good opportunities to acquire high quality assets at a reasonable price.

The LAPP Board will continue to diligently monitor performance and management of the Plan's investments throughout 2010.

Contents

Financial Statements

Year Ended December 31, 2009

Management's Responsibility for Financial Reporting

The Local Authorities Pension Plan (Plan) financial statements and financial information in the 2009 annual report are the responsibility of the Minister of Finance and Enterprise. Certain of these responsibilities are undertaken on behalf of the Minister of Finance and Enterprise by:

- Alberta Investment Management Corporation (AIMCo), which is only responsible for the management of assets, subject to legislation and to the investment policies and goals approved by the Plan Board;
- Alberta Pensions Services Corporation (APS), which is only responsible for administration of the Plan under an Administrative Services Agreement with the Minister of Finance and Enterprise; and
- Alberta Local Authorities Pension Plan (ALAPP) Corp., which is only responsible for Plan strategy and Board support.

The information in the annual report has been approved by the Plan Board. The financial statements were approved by the Deputy Minister of Finance and Enterprise, based on information provided by APS, Alberta Local Authorities Pension Plan Corp. and the Plan's actuary, and after consultation with the Plan Board.

The financial statements have been prepared by Alberta Finance and Enterprise in conformity with Canadian generally accepted accounting principles and, of necessity, include some amounts that are based on estimates and judgments. Financial information presented in the 2009 annual report that relates to the operations and financial position of the Plan is consistent with that in the financial statements.

To discharge their responsibility for the integrity and objectivity of financial reporting, Alberta Finance and Enterprise, AIMCo, APS, and ALAPP each maintain a system of internal controls comprising written policies, standards and procedures, and a formal accountability structure. These systems are designed to provide management of these entities with reasonable assurance that transactions are properly authorized, reliable financial records are maintained, and assets are adequately accounted for and safeguarded.

The Auditor General of Alberta, the Plan's external auditor, provides an independent audit of the financial statements.

April 15, 2010

[Original signed by Tim Wiles]
Deputy Minister of Finance and Enterprise

Auditor's Report

To the Minister of Finance and Enterprise and the Local Authorities Pension Plan Board of Trustees

I have audited the Statements of Net Assets Available for Benefits and Liability for Accrued Benefits of the Local Authorities Pension Plan as at December 31, 2009 and 2008 and the Statements of Changes in Net Assets Available for Benefits, Changes in Liability for Accrued Benefits and Changes in Deficiency for the years then ended. These financial statements are the responsibility of the Plan's management. My responsibility is to express an opinion on these financial statements based on my audits.

I conducted my audits in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the Net Assets Available for Benefits and Liability for Accrued Benefits of the Plan as at December 31, 2009 and 2008 and the Changes in Net Assets Available for Benefits, Changes in Liability for Accrued Benefits and Changes in Deficiency for the years then ended in accordance with Canadian generally accepted accounting principles.

[Original signed by Merwan N. Saher]
CA
Acting Auditor General

Edmonton, Alberta
April 15, 2010

Statements of Net Assets Available for Benefits and Liability for Accrued Benefits

As at December 31

($ thousands)	2009	2008
Net Assets Available For Benefits		
Assets		
Investments (Note 3)	$ 15,494,381	$ 13,493,066
Contributions receivable (Note 6)	40,920	41,467
Receivable for investment sales	75	-
Accrued investment income and accounts receivable	6,138	1,542
	15,541,514	13,536,075
Liabilities		
Accounts payable	10,603	6,346
Liabilities for investment purchases	163,425	12,500
	174,028	18,846
Net assets available for benefits	15,367,486	13,517,229
Liability for Accrued Benefits		
Actuarial value of accrued benefits (Note 7)	19,366,100	17,931,200
Deficiency	$ (3,998,614)	$ (4,413,971)

The accompanying notes and schedules are part of these financial statements.

Statements of Changes in Net Assets Available for Benefits

Years ended December 31

($ thousands)	2009	2008
Increase in assets		
Contributions (Note 8)	$ 1,313,955	$ 1,070,727
Net investment income (loss) (Note 9)		
Investment income (loss)	1,381,492	(2,312,034)
Investment expenses	(63,543)	(66,479)
	1,317,949	(2,378,513)
	2,631,904	(1,307,786)
Decrease in assets		
Pension benefits	569,021	524,557
Refunds to members	162,473	195,933
Transfers to other plans	25,911	21,216
Member service expenses (Note 10)	24,242	21,145
	781,647	762,851
Increase (decrease) in net assets	1,850,257	(2,070,637)
Net assets available for benefits at beginning of year	13,517,229	15,587,866
Net assets available for benefits at end of year	$ 15,367,486	$ 13,517,229

The accompanying notes and schedules are part of these financial statements.

Statements of Changes in Liability for Accrued Benefits

Years ended December 31

($ thousands)	2009	2008
Increase in liability for accrued benefits		
Interest accrued on opening liability for accrued benefits	$ 1,189,500	$ 1,171,400
Benefits earned	950,400	909,400
Net experience losses (Note 7(b))	657,900	110,900
	2,797,800	2,191,700
Decrease in liability for accrued benefits		
Benefits paid including interest	760,300	742,400
Net decrease (increase) due to actuarial assumption changes	602,600	289,300
	1,362,900	1,031,700
Net increase in liability for accrued benefits	1,434,900	1,160,000
Liability for accrued benefits at beginning of year	17,931,200	16,771,200
Liability for accrued benefits at end of year (Note 7)	$ 19,366,100	$ 17,931,200

The accompanying notes and schedules are part of these financial statements.

Statements of Changes in Deficiency

Years ended December 31

($ thousands)	2009	2008
Deficiency at beginning of year	$ (4,413,971)	$ (1,183,334)
Increase (decrease) in net assets available for benefits	1,850,257	(2,070,637)
Net increase in liability for accrued benefits	(1,434,900)	(1,160,000)
Deficiency at end of year (Note 12)	$ (3,998,614)	$ (4,413,971)

The accompanying notes and schedules are part of these financial statements.

Note 1 Summary Description of the Plan

The following description of the Local Authorities Pension Plan (the Plan) is a summary only. For a complete description of the Plan, reference should be made to the *Public Sector Pension Plans Act*, Revised Statutes of Alberta 2000, Chapter P-41, and the *Local Authorities Pension Plan* Alberta Regulation 366/93, as amended.

a) General

The Plan is a contributory defined benefit pension plan for eligible employees of local authorities and approved public bodies. These include cities, towns, villages, municipal districts, hospitals, health care facilities, school divisions, school districts, colleges, technical institutes and certain commissions, foundations, agencies, libraries, corporations, associations and societies. The Plan is a registered pension plan as defined in the *Income Tax Act*. The Plan's registration number is 0216556. The Minister of Alberta Finance and Enterprise is the legal trustee of the Plan and accordingly Alberta Finance and Enterprise is management of the Plan. The Plan is governed by the Local Authorities Pension Board (the Board).

b) Plan Funding

Current service costs and the Plan's actuarial deficiency (see Note 12) are funded by employers and employees at contribution rates which together with investment earnings are expected to provide for all benefits payable under the Plan. The contribution rates in effect at December 31, 2009 were 7.46% (2008 6.75%) of pensionable earnings up to the Canada Pension Plan's Year's Maximum Pensionable Earnings (YMPE) and 10.66 % (2008 9.64%) of the excess for employees, and 8.46 % (2008 7.75%) of pensionable earnings up to the YMPE and 11.66 % (2008 10.64%) of the excess for employers.

The contribution rates were reviewed by the Board in 2009 and are to be reviewed at least once every three years based on recommendations of the Plan's actuary. As a result of this review, the contribution rates have increased at January 1, 2010 as follows: 8.06% of pensionable salary up to the YMPE and 11.53% of the excess for employees, and 9.06% of pensionable salary up to the YMPE and 12.53% of the excess for employers

c) Retirement Benefits

The Plan provides for a pension of 1.4% for each year of pensionable service based on the average salary of the highest five consecutive years up to the YMPE and 2.0% on the excess, subject to the maximum pension benefit limit allowed under the *Income Tax Act*. The maximum pensionable service allowable under the Plan is 35 years. Unreduced pensions are payable to members at retirement who have attained age 65, or have attained age 55 and the sum of their age and years of pensionable service equals at least 85. Reduced pensions are payable to members at age 55 or older retiring early with a minimum of two years of pensionable service.

d) Disability Benefits

Pensions may be payable to members who become totally disabled and retire early with at least two years of pensionable service. Reduced pensions may be payable to members who become partially disabled and retire early with at least two years of pensionable service.

e) Death Benefits

Death benefits are payable on the death of a member. If the member has at least two years of pensionable service and a surviving pension partner, the surviving pension partner may choose to receive a survivor pension. For a beneficiary other than a pension partner, or where pensionable service is less than two years, a lump sum payment will be made.

f) Termination Benefits and Refunds to Members

Members who terminate with at least two years of membership and who are not immediately entitled to a pension may receive the commuted value for all years of membership, contributions paid in respect of optional service with interest, plus excess contributions if applicable, with the commuted value being subject to lock-in provisions. Alternatively, they may elect to receive a deferred pension. Members who terminate with fewer than two years of membership receive a refund of their contributions and interest. These payments are included as Refunds to members on the Statement of Changes in Net Assets Available for Benefits.

g) Optional Service and Reciprocal Transfers

All optional service purchases are to be cost-neutral to the Plan. The actuarial present value of pension entitlements is paid when service is transferred out of the Plan under a transfer agreement. The cost to recognize service transferred into the Plan under a transfer agreement is the actuarial present value of the benefits that will be created as a result of the transfer.

h) Cost-Of-Living Adjustments

Pensions payable are increased each year on January 1st by an amount equal to 60% of the increase in the Alberta Consumer Price Index. The increase is based on the increase during the twelve-month period ending on October 31st in the previous year.

Note 2 Summary of Significant Accounting Policies and Reporting Practices

a) Basis of Presentation

These financial statements are prepared on the going concern basis in accordance with Canadian generally accepted accounting principles. The statements provide information about the net assets available in the Plan to meet future benefit payments and are prepared to assist Plan members and others in reviewing the activities of the Plan for the year.

Except for real rate of return bonds, which are held directly by the Plan, Plan investments are held in pooled investment funds established and administered by Alberta Investment Management Corporation (AIMCo). Pooled investment funds have a market-based unit value that is used to allocate income to pool participants and to value purchases and sales of pool units.

b) Valuation of Investments

Investments are recorded in the financial statements at fair value.

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

For private investments, absolute return strategies and timberland investments, the fair value is based on estimates where quoted market prices are not readily available. Estimated fair values may not reflect amounts that could be realized upon immediate sale, or amounts that ultimately may be realized. Accordingly, the estimated fair values may differ significantly from the values that would have been used had a ready market existed for these investments.

The methods used by AIMCo to determine the fair value of investments held either by the Plan or by pooled investment funds is explained in the following paragraphs:

i) Short-term securities, public fixed income securities and equities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

ii) Private fixed income securities and mortgages are valued based on the net present value of future cash flows. These cash flows are discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market.

iii) The fair value of private equity and income investments is estimated by managers or general partners of private equity funds, pools and limited partnerships. Valuation methods may encompass a broad range of approaches. The cost approach is used to value companies without either profits or cash flows. Established private companies are valued using the fair market value approach reflecting conventional valuation methods including discounted cash flows and multiple earnings analyses.

iv) The fair value of private real estate investments is reported at their most recent appraised value net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers. Appraisers use a combination of methods to determine fair value including replacement cost, direct comparison, direct capitalization of earnings and the discounted cash flows.

v) The fair value of Absolute Return Strategy Pool investments is estimated by external managers.

vi) The fair value of timberland investments is appraised annually by independent third party valuators.

c) Income Recognition

Investment income and expenses are recognized on the accrual basis. Dividends are accrued on the ex-dividend date. Gains or losses on investments, including those from derivative contracts, are recognized concurrently with changes in fair value.

d) Foreign Exchange

Foreign currency transactions are translated into Canadian dollars using average rates of exchange. At year-end, the fair value of investments and any other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rate. Exchange differences are included in the determination of net investment income.

e) Valuation of Derivative Contracts

Derivative contracts (see Note 5) include equity and bond index swaps, interest rate swaps, forward foreign exchange contracts, futures contracts, credit default swaps, cross-currency interest rate swaps and swap option contracts. The value of derivative contracts is included in the fair value of pooled investment funds. The estimated amount receivable or payable from derivative contracts at the reporting date is determined by the following methods:

i) Equity and bond index swaps are valued based on changes in the appropriate market based index net of accrued floating rate interest.

ii) Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and year-end exchange rates.

iii) Forward foreign exchange contracts and futures contracts are based on quoted market prices.

iv) Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities.

v) Options to enter into interest rate swap contracts are valued based on discounted cash flows using current market yields and volatility parameters which measure changes in the underlying swap.

f) Valuation of Liability for Accrued Benefits

The value of the liability for accrued benefits and changes therein during the year are based on an actuarial valuation prepared by an independent firm of actuaries. The valuation is made at the beginning of the year and results from the most recent valuation are extrapolated to year-end. The valuation uses the projected benefit method pro-rated on service and management's best estimate, as at the valuation and extrapolation date, of various economic and non-economic assumptions.

g) Measurement Uncertainty

In preparing these financial statements, estimates and assumptions are used in circumstances where the actual values are unknown. Uncertainty in the determination of the amount at which an item is recognized in the financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

Measurement uncertainty exists in the valuation of the Plan's liability for accrued benefits, private investments, absolute return strategies, real estate and timberland investments. Uncertainty arises because:

i) the Plan's actual experience may differ, perhaps significantly, from assumptions used in the extrapolation of the Plan's liability for accrued benefits, and

ii) the estimated fair values of the Plan's private investments, absolute return strategies, real estate and timberland investments may differ significantly from the values that would have been used had a ready market existed for these investments.

While best estimates have been used in the valuation of the Plan's liability for accrued benefits, private investments, absolute return strategies, real estate and timberland investments, management considers that it is possible, based on existing knowledge, that changes in future conditions in the short term could require a material change in the recognized amounts.

Differences between actual results and expectations in the Plan's accrued benefits are disclosed as assumption or other changes and net experience gains or losses in the statement of changes in liability for accrued benefits in the year when actual results are known.

Differences between the estimated fair values and the amount ultimately realized for investments are included in net investment income in the year when the ultimate realizable values are known.

Years ended December 31 (All dollar amounts in thousands, except per member data)

Note 3 Investments (Schedules A to D)

($ thousands)		2009 Fair Value	%		2008 Fair Value	%
Fixed Income Securities (Schedule A)						
Deposit in the Consolidated Cash Investment Trust Fund (a)	$	475,477	3.1	$	223,908	1.7
Canadian Long Term Government Bond Pool (b)		3,165,555	20.4		3,024,427	22.4
Universe Fixed Income Pool (b)		540,106	3.5		377,473	2.8
Private Mortgage Pool (d)		708,957	4.6		704,268	5.2
Currency Alpha Pool (e)		21,301	0.1		31,315	0.2
Fixed Income Overlay Strategy Pool (f)		(157,394)	(1.0)		(336,834)	(2.5)
Tactical Asset Allocation Pool		20,838	0.1		9,896	0.1
		4,774,840	30.8		4,034,453	29.9
Real rate of return bonds (c)		892,697	5.8		721,456	5.4
		5,667,537	36.6		4,755,909	35.3
Canadian Equities (Schedule B)						
Canadian Equities Master Pool (g)		1,859,716	12.0		-	-
Canadian Equities Transition Account Pool (h)		33,080	0.2		-	-
Canadian Overlay Strategy Pool (f)		-	-		132,480	1.0
Other Canadian equity pools		-	-		1,868,955	13.8
		1,892,796	12.2		2,001,435	14.8
Global Equities (Schedule C)						
Global Equities Master Pool (i)		3,762,157	24.3		-	-
Portable Alpha U.S. Equity Pool (j)		299,843	1.9		462,527	3.4
Global Equity Overlay Strategy Pool (f)		179,736	1.2		296,396	2.2
Emerging Markets Equity Pool (k)		37,633	0.2		56,503	0.4
Structured Transition Pool (l)		72,569	0.5		7,699	0.1
Other Global equity pools		-	-		2,678,928	19.9
		4,351,938	28.1		3,502,053	26.0
Private Real Estate Pool (Schedule D) (m)		1,827,730	11.8		1,634,272	12.1
Absolute Return Strategy Pool (n)		590,835	3.8		557,517	4.1
Private Income (o)		572,405	3.7		478,221	3.5
Private Equities (p)		514,422	3.3		491,699	3.7
Timberland Pool (q)		76,718	0.5		71,960	0.5
Total investments	$	15,494,381	100.0	$	13,493,066	100.0

a) The Consolidated Cash Investment Trust Fund is managed with the objective of providing competitive interest income to depositors while maintaining maximum security and liquidity of depositors' capital. The portfolio is comprised of short-term and mid-term fixed income securities with a maximum term to maturity of three years.

b) The Canadian Long Term Government Bond Pool (CLGB) and the Universe Fixed Income Pool (UFIP) are managed with the objectives of providing competitive returns comparable to the total returns of the DEX Long Term All Government Bond Index and the DEX Universe Bond Index respectively over a four-year period while maintaining adequate security and liquidity of participants' capital. The CLGB portfolio invests primarily in fixed income instruments of the federal, provincial and municipal governments of Canada while the UFIP portfolio is comprised of Canadian fixed income instruments and debt related derivatives. Competitive returns are achieved through management of the portfolio duration and sector rotation.

c) Real rate of return bonds are issued or guaranteed primarily by the Government of Canada and bear interest at a fixed rate adjusted for inflation.

d) The Private Mortgage Pool is managed with the objective of providing investment returns higher than the DEX Universe Bond Index over the long term. The portfolio is comprised primarily of commercial mortgage loans, provincial bond residuals and speciality mortgages. To limit investment risk, mortgage loans are restricted to first mortgage loans diversified by property usage and geographic location and a small portion of NHA insured loans.

e) The Currency Alpha Pool is managed with the objective of providing a fair return over a four-year period while reducing return volatility through multiple manager investment styles and strategies. The return is achieved through active currency management with currency positions established primarily through forward foreign exchange contracts.

f) The Overlay Strategy Pools provide participants with a quick, effective and efficient way to gain interim exposure to a major asset class by altering the portfolio weights of broad asset classes using synthetic instruments. The asset classes that can be replicated in the overlay program include fixed income securities, Canadian equities, U.S. equities, Europe, Australasia and the Far East (EAFE) equities, major foreign currencies and styles and sectors. At December 31, 2009, the overlay strategy pools consisted of cash and cash equivalents which support approximately 5% to 10% of the Pool's notional exposure through futures and swap contracts.

g) On July 31, 2009, the Plan consolidated its holdings in various Canadian public equity pools and invested in the newly created Canadian Equities Master Pool (CEMP). CEMP owns all the units of the following pools:

Percent of CEMP	**2009**	2008
Canadian Equities Index Pool	40.3	-
Canadian Quantitative Strategies Pool	32.1	-
Canadian External Managers Pool	27.6	-
	100.0	-

CEMP provides participants with the opportunity to gain broad investment exposure to Canadian public equity markets by investing in directly held public equities and structured equity products.

Years ended December 31 (All dollar amounts in thousands, except per member data)

CEMP has a performance objective to provide returns higher than the total return of the S&P/TSX Composite Index over a four-year moving average period. The Pool gains exposure to the Canadian public equity market through a structured investment implementation and a quantitative minimum variance implementation, and uses an overlay strategy to manage the overall risk exposure. The Pool's investment in units of the Floating Rate Note Pool (FRNP) is used as the underlying securities to support the index swaps of the Pool. FRNP is managed with the objective of generating floating rate income needed for the swap obligations in respect of structured investments in Canadian equities. Through the use of interest rate swaps FRNP provides investment opportunities in floating rate instruments with remaining term-to-maturities of five years or less.

h) The Canadian Equities Transition Account holds cash and one Canadian equity investment in the financial sector.

i) On July 31, 2009, the Plan consolidated its holdings in various U.S. and Non-North American public equity pools and invested in the newly created Global Equities Master Pool (GEMP). GEMP owns all the units in the following pools:

Percent of GEMP	**2009**	2008
Global External Managers Pool	43.0	-
Global Equities Index Pool	35.8	-
North American Concentrated Equity Pool	18.7	-
Global Equities Overlay Pool	1.8	-
EAFE Quantitative Equity Strategies	0.7	-
	100.0	-

GEMP provides participants with the opportunity to gain broad investment exposure to global public equity markets by investing in directly held public equities, structured equity products and concentrated equities.

GEMP has a performance objective to provide returns higher than the total return of the Morgan Stanley Capital International (MSCI) World Total Return Index over a four-year moving average period. The Pool gains exposure to global equity markets in developed countries through a structured investment implementation and uses an overlay strategy to manage the overall risk exposure. The Pool's North American concentrated equity strategy holds larger positions in mid size Canadian and American companies ranging from 5% to 20% of outstanding common shares. The Pool's investment in units of FRNP is used as the underlying securities to support the index swaps of the Pool.

j) The Portable Alpha U.S. Equity Pool provides exposure to the global equity market by replicating the MSCI World Total Return Index with MSCI World Total Return Index swaps and futures contracts. Absolute return strategy investments and money market instruments are actively used as underlying securities to add value to the exposure. At December 31, 2009 the performance objective is to provide returns higher than the total return of the MSCI World Total Return Index over a four-year period.

k) The Emerging Markets Equity Pool consists of publicly traded equities in emerging markets around the world. The portfolio is actively managed by external managers with expertise in emerging markets. The performance objective is to provide returns higher than the total return of the Morgan Stanley Capital Index (MSCI) Emerging Markets Free Net (EMF) Index over a four-year period.

l) The Structured Transition Pool provides exposure to U.S. and EAFE markets through the use of structured investments such as foreign equity index swaps.

m) The Private Real Estate Pool is managed with the objective of providing investment returns higher than the Investment Property Databank (IPD) Large Institutional All Property Index over the long term. Real estate is held through intermediary companies, which have issued to the Pool common shares and participating debentures secured by a charge on real estate. Risk is reduced by investing in properties that provide diversification by geographic location, by property type and by tenancy. The Pool is intended to provide diversification from the securities market.

n) The Absolute Return Strategy Pool is managed with the objective of providing investment returns comparable to the HFRX Global Hedged Index. The Pool is intended to yield absolute positive investment returns with lower volatility using various investment strategies.

o) The Private Income Pools are managed with the objectives of providing investment returns comparable to the Consumer Price Index plus 6%. The Private Income Pools invest in infrastructure related projects that are structured to yield high current income. Risk is reduced by avoiding direct investments in private companies and by limiting holdings in any single partnership.

p) The Foreign Private Equity Pools are managed with the objectives of providing investment returns comparable to the Consumer Price Index plus 8%. The Foreign Private Equity Pool invests in institutionally sponsored international private equity pools managed by experienced advisors with proven records.

q) The Timberland Pool provides high current income and long investment horizons. The timberland investment is primarily a partnership interest in forestry land and land held for higher and better use located in British Columbia. The performance objective is to earn a return higher than CPI plus 4.0%.

Note 4 Investment Risk Management

Fair values of investments are exposed to credit risk and price risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Price risk is comprised of currency risk, interest rate risk and market risk. Currency risk relates to the possibility that the investments will change in value due to future fluctuations in foreign exchange rates. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. Market risk relates to the possibility that the investments will change in value due to future fluctuations in market prices.

Actuarial liabilities of the Plan are primarily affected by the long-term nominal real rate of return expected to be earned on investments. In order to earn the best possible return at an acceptable level of risk, the Board has established a long-term policy asset mix of:

Cash and short-term securities	0.5%
Universe bonds	8.0%
Long bonds	20.0%
Real return bonds	7.0%
Canadian equities	11.0%
Global equities	17.5%
Absolute Return Strategies	3.5%
Private income	7.5%
Timberland	3.0%
Private equities	7.5%
Real estate	14.5%

Investment risk is reduced through asset class diversification, diversification within each asset class; quality constraints on fixed income instruments and restrictions on amounts exposed to countries designated as emerging markets. Controls are in place respecting the use of derivatives (see Note 5). Forward foreign exchange contracts are used to manage currency exposure in connection with securities purchased in a foreign currency (see Note 5).

Note 5 Derivative Contracts

Derivative contracts are financial contracts, the value of which is derived from the value of underlying assets, indices, interest rates or currency rates. The Plan uses derivative contracts held indirectly through pooled investment funds to enhance return, manage exposure to interest rate risk and foreign currency risk and for asset mix management purposes. The notional value of a derivative contract represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows.

A swap is a contractual agreement between two counter-parties to exchange a series of cash flows based on a notional amount. An equity or bond index swap involves the exchange of a floating interest rate cash flow for one based on the performance of a market index. For interest rate swaps, parties generally exchange fixed and floating rate interest cash flows based on a notional amount. A credit default swap allows counter-parties to buy and sell protection on credit risk inherent in a bond. A premium is paid, based on a notional amount, from one counter-party to a second counter-party in exchange for a contingent payment should a defined credit event occur with respect to the underlying security. Cross-currency interest rate swaps are contractual obligations in which the principal amounts of Canadian fixed-income securities denominated in foreign currency are exchanged for Canadian currency amounts both initially and at maturity. Over the term of the cross-currency swap, counter-parties exchange fixed to fixed and fixed to floating interest rate cash flows in the swapped currencies. There are underlying securities supporting all swaps. Leveraging is not allowed.

Forward foreign exchange contracts are contractual agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

Futures contracts are agreements to receive or pay cash on an agreed settlement date based on changes in the level of the specified index.

Swap option contracts include the right but not the obligation, to enter into an interest rate swap at a preset rate within a specified period of time.

The following is a summary of the Plan's proportionate share of the notional amount and fair value of derivative contracts held by pooled funds at December 31, 2009:

($ thousands)				**2009**		2008	
	Maturity						
	Under 1 Year	1 to 3 Years	Over 3 Years	Notional Amount	Net Fair Value (a)	Notional Amount	Net Fair Value (a)
		%					
Equity index swap contracts	99	1	-	$ 3,411,339	$ 40,370	$ 1,090,828	$ 30,486
Forward foreign exchange contracts	100	-	-	2,789,653	59,549	1,891,040	(129,664)
Futures contracts	100	-	-	1,287,716	85,745	586,003	69,137
Swap option contracts	100	-	-	755,221	(5,937)	-	-
Interest rate swap contracts	23	65	12	504,146	(19,580)	172,748	(4,471)
Credit default swap contracts	32	38	30	494,217	(3,467)	530,257	(10,193)
Cross-currency interest rate swaps	54	31	15	329,256	3,938	118,650	(9,326)
Bond index swap contracts	100	-	-	19,866	(178)	25,699	676
				$ 9,591,414	$ 160,440	$ 4,415,225	$ (53,355)

The method of determining fair value of derivative contracts is described in Note 2 (e).

The notional amounts, upon which payments are based, are not indicative of the credit risk associated with derivative contracts. Current credit exposure is represented by the current replacement cost of all outstanding contracts in a favourable position (positive fair value). The Plan attempts to limit its credit exposure by dealing with counter-parties believed to have good credit standing.

At December 31, 2009, the notional value of equity index swap contracts includes amounts related to counter-parties that are public service pension plans and Government of Alberta endowment funds managed by AIMCo totalling $226,297 (2008:$nil). The net fair value of these contracts totalled $(429) (2008:$nil).

Note 6 Contributions Receivable

($ thousands)	**2009**	2008
Employers	$ 21,498	$ 21,928
Employees	19,422	19,539
	$ 40,920	$ 41,467

Years ended December 31 (All dollar amounts in thousands, except per member data)

Note 7 Liability for Accrued Benefits

a) Actuarial Valuation and Extrapolation Assumptions

An actuarial valuation of the Plan was carried out as at December 31, 2008 by Mercer (Canada) Limited and results were then extrapolated to December 31, 2009.

The actuarial assumptions used in determining the value of the liability for accrued benefits of $19,366,100 (2008: $17,931,200) reflect management's best estimate, as at the valuation and extrapolation date, of future economic events and involve both economic and non-economic assumptions. The non-economic assumptions include considerations such as mortality as well as withdrawal and retirement rates. The primary economic assumptions include the investment rate of return, inflation rate and salary escalation rate.

The major assumptions used for accounting purposes were:

%	**2009**	2008
Investment rate of return	6.50	6.30
Inflation rate	2.25	2.25
Salary escalation rate*	3.50	3.50

* In addition to age specific merit and promotion increase assumptions.

The Board's policy is to have an actuarial valuation of the Plan carried out every year. As a result, an actuarial valuation of the Plan as at December 31, 2009 will be carried out subsequent to the completion of these financial statements. Any differences between the actuarial valuation results and extrapolation results as reported in these financial statements will affect the financial position of the Plan and will be accounted for as gains or losses in 2010.

b) Net Experience Losses

Experience losses of $657,900 (2008: $110,900) arose from differences between the actuarial assumptions used in the 2008 valuation and 2009 extrapolation for reporting compared to actual results.

c) Sensitivity of Changes in Major Assumptions

The Plan's future experience will differ, perhaps significantly, from the assumptions used in the actuarial valuation and extrapolation. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations and will affect the financial position of the Plan.

The following is a summary of the sensitivities of the Plan's deficiency and current service cost to changes in assumptions used in the actuarial extrapolation at December 31, 2009:

($ thousands)	Changes in Assumptions %	Increase in Plan Deficiency $	Increase in Current Service Cost as a % of Pensionable Earnings *
Inflation rate increase holding nominal investment return and salary escalation assumptions constant	1.0	1,284,400	0.8
Salary escalation rate increase holding inflation rate and nominal investment return assumptions constant	1.0	809,500	1.0
Investment rate of return decrease holding inflation rate and salary escalation assumptions constant	(1.0)	2,969,500	2.6

* The current service cost as a percentage of pensionable earnings as determined by the December 31, 2009 extrapolation was 13.28%.

Note 8 Contributions

($ thousands)	**2009**	2008
Current and optional service		
Employers	$ 677,825	$ 544,796
Employees (a)	615,785	503,928
Transfers from other plans	20,345	22,003
	$ 1,313,955	$ 1,070,727

a) Includes $19,789 (2008: $18,669) of optional service contributions.

Years ended December 31 (All dollar amounts in thousands, except per member data)

Note 9 Net Investment Income (Loss)

a) Investment Income (Loss)
Net investment income (loss) is comprised of the following:

($ thousands)	**2009**	2008
Investment income (loss)		
Net realized and unrealized gain (loss) on investments, including those arising from derivative transactions	$ 881,189	$ (2,882,425)
Interest income	262,671	279,671
Dividend income	149,781	200,642
Real estate income	81,625	75,595
Securities lending income	6,226	14,483
	1,381,492	(2,312,034)
Investment expenses	(63,543)	(66,479)
Net investment income (loss)	$ 1,317,949	$ (2,378,513)

The following is a summary of the Plan's proportionate share of net investment income (loss) by type of investments:

($ thousands)	**2009**	2008
Global equities	$ 551,231	$ (1,367,228)
Canadian equities	521,148	(875,511)
Fixed income securities	333,950	14,073
Absolute return strategies	96,170	(203,162)
Private income	6,228	68,633
Timberland	(4,049)	(10,564)
Private equities	(42,205)	(89,055)
Private real estate	(144,524)	84,301
Net investment income (loss)	$ 1,317,949	$ (2,378,513)

The following is a summary of the investment performance results attained by the Plan:

	2009	2008	Four-Year Compound Annualized Return	Eight-Year Compound Annualized Return	Sixteen-Year Compound Annualized Return
Time-weighted rates of return*					
Actual gain (loss)*	9.4%	(15.1%)	2.6%	5.2%	7.0%
Benchmark gain (loss)**	11.1%	(10.9%)	3.6%	5.4%	7.1%
Value lost by investment manager	(1.7%)	(4.2%)	(1.0%)	(0.2%)	(0.1%)

* The measure involves the calculation of the return realized by the Plan over a specified period and is a measure of the total proceeds received from an investment dollar initially invested. Total proceeds include cash distributions (interest and dividend payments) and capital gains and losses (realizedand unrealized).

** The policy benchmark return is a product of the weighted average policy sector weights and sector returns. Some of the sector benchmark returns used in the determinaton of the overall policy benchmark are based on management's best estimate which may vary significantly from the final benchmark return. Differences between the estimated sector benchmark returns and the final benchmark returns are recorded in the period of the change.

b) Investment Expenses

Investment expenses are recognized on an accrual basis and include those costs and fees incurred to earn investment income of the Plan. The Plan recognizes portfolio management and administration expenses incurred directly by the Plan and its share of expenses through pool investment funds.

Investment services provided by Alberta Investment Management Corporation (AIMCo) are charged directly to the Plan and to pooled funds on a cost recovery basis. Investment services provided by external managers, engaged by AIMCo, are charged to pooled funds based on a percentage of net assets under management at fair value or committed amounts. Fees charged by external managers include primarily regular management fees and performance/incentive based fees to the extent recognized. Investment services include daily trading of securities, portfolio research and analysis, custody of securities, valuation of securities, performance measurement, maintenance of investment systems and internal audit.

Alberta Finance and Enterprise provides investment accounting, reporting and treasury management services for the Plan. A portion of these costs is charged to the Plan.

Investment expenses as a percentage of net assets and per member are provided below:

($ thousands)	**2009**	2008
Total investment expenses	$ 63,543	$ 66,479
Investment expenses as a percentage of net assets	0.41%	0.49%
Investment expenses per member	$ 327	$ 361

Years ended December 31 (All dollar amounts in thousands, except per member data)

Note 10 Member Service Expenses

($ thousands)		2009		2008
General administration costs and process improvement costs				
Alberta Pensions Services Corporation (APS)	$	21,782	$	18,642
Alberta Local Authorities Pension Plan Corporation (ALAPP Corp.)		2,206		2,099
Actuarial fees		254		404
		24,242		21,145
Member service expenses per member	$	125	$	115

General administration costs and process improvement costs, including the Board costs were paid to APS and ALAPP Corp. on a cost-recovery basis.

The Plan's share of APS's operating and plan specific costs were based on cost allocation policies approved by the Minister of Alberta Finance and Enterprise.

ALAPP Corp. costs include remuneration to senior officials and the Board members as follows:

($ thousands)							2009		2008
		Base Salary (a)		Other Cash Benefits (b)		Other Non-Cash Benefits (c)		Total		Total
Corporation Board Chair (d)	$	-	$	39	$	-	$	39	$	29
Corporation Board Members (excluding Chair) (d)	$	-	$	133			$	133		127
President & Chief Executive Officer (e)	$	182	$	35		40	$	257		323
Vice-President: Policy and Legal (f)	$	145	$	28		33	$	206		218
	$	327	$	235	$	73	$	635	$	697

a) Base salary includes regular base pay.

b) Other cash benefits include incentive pay, lump sum payments, vacation payouts and car allowance honoraria.

c) Other non-cash benefits include the Corporation's share of all employees' benefits and contributions or payments made on their behalf including pension, health care, dental coverage, professional memberships and group life insurance.

d) Remuneration paid for the services of the Chair and 13 board members is classified under the Board meeting fees and is paid in accordance with the fee structure approved by the Minister of Alberta Finance and Enterprise.

e) Position held for ten months, vacant for two months.

f) Position includes three months of Acting Chief Executive Officer pay.

Note 11 Total Plan Expenses

Total Plan expenses of investment expenses per Note 9 (b) and member service expenses per Note 10 are $87,785 (2008: $87,624) or $451 (2008: $476) per member and 0.57% (2008: 0.60%) of net assets under administration.

Note 12 Funding of Actuarial Deficiency

The Plan's deficiency is determined on the fair value basis for accounting purposes. However, for funding valuation purposes, asset values are adjusted for fluctuations in fair values to moderate the effect of market volatility on the Plan's funded status. Actuarial asset value for funding valuation purposes amounted to $16,198,400 at December 31, 2009 (2008: $15,418,300).

In accordance with the *Public Sector Pension Plans Act*, the actuarial deficiencies as determined by actuarial funding valuations are expected to be funded by special payments currently totalling 6.23% of pensionable earnings shared equally between employers and employees until December 31, 2020. The special payments have been included in the rates in effect at December 31, 2009 (see Note 1(b)).

Note 13 Comparative Figures

Comparative figures have been reclassified to be consistent with 2009 presentation.

Note 14 Responsibility for Financial Statements

These financial statements were approved by the Deputy Minister of Alberta Finance and Enterprise, based on information provided by APS, ALAPP Corp., AIMCo and the Plan's actuary, and after consultation with the Board.

Schedule A
Schedule of Effective Net Investments in Fixed Income Securities

($ thousands)	Plan's Share 2009	2008
Deposits and short-term securities	$ 372,046	$ 322,425
Fixed income securities (a) (b)		
Government of Canada, direct and guaranteed	1,166,672	799,341
Provincial		
Alberta, direct and guaranteed	80	104
Other Provincial, direct and guaranteed	2,159,133	1,963,349
Municipal	72,919	70,202
Corporate, public and private	1,859,496	1,575,320
	5,258,300	4,408,316
Receivable from sale of investments and accrued investment income	47,687	41,188
Accounts payable and accrued liabilities	(10,496)	(16,020)
	37,191	25,168
	$ 5,667,537	$ 4,755,909

a) Direct investments and derivative contracts are classified based on the risk exposure to the above asset mix categories. The Plan's effective net investment in deposits and fixed income securities is reduced by the notional amount of derivative contracts totalling $157,394 (2008: $373,156).

b) Fixed income securities held as at December 31, 2008 had an average effective market yield of 5.3% per annum (2008: 5.4% per annum). The following term structure of these securities as at December 31, 2009 is based on the principal amount:

%	2009	2008
under 1 year	1	1
1 to 5 years	9	8
6 to 10 years	15	8
11 to 20 years	24	17
over 20 years	51	66
	100	100

Schedule B
Schedule of Effective Net Investments in Canadian Equities

($ thousands)	Plan's Share 2009	2008
Deposits and short-term securities	$ 14,764	$ 46,168
Public equities (a) (b)		
Consumer discretionary	124,225	175,525
Consumer staples	89,499	88,275
Energy	442,981	427,025
Financials	534,152	412,933
Health care	17,558	19,582
Industrials	139,455	203,635
Information technology	61,276	57,777
Materials	308,240	235,864
Telecommunication services	99,166	90,514
Utilities	47,438	37,542
	1,863,990	1,748,672
Pooled investment funds	-	157,255
Receivable from sale of investments and accrued investment income	28,818	87,996
Accounts payable and accrued liabilities	(14,776)	(38,656)
	14,042	49,340
	$ 1,892,796	$ 2,001,435

a) Direct investments and derivative contracts are classified based on the risk exposure to the above asset mix categories. The Plan's effective net investment in Canadian public equities includes the notional amount of Canadian equity index swaps and futures contracts totalling $612,226 (2008: $99,736).

b) The sector classification conforms to the Global Industry Classification Standard followed by the Standard & Poor's Toronto Stock Exchange Composite Index.

Schedule C
Schedule of Effective Net Investments in Global Equities

($ thousands)	Plan's Share 2009	2008
Deposits and short-term securities	$ 134,372	$ 87,871
Public equities (a) (b)		
Consumer discretionary	429,355	311,234
Consumer staples	416,386	356,909
Energy	381,075	328,717
Financials	849,257	613,731
Health care	350,227	415,646
Industrials	609,239	398,128
Information technology	355,571	315,043
Materials	252,734	195,056
Telecommunication services	182,946	257,651
Utilities	158,052	175,640
	3,984,842	3,367,755
Pooled investment funds	-	30,806
U. S. Hedge funds	238,591	-
	4,223,433	3,398,561
Receivable from sale of investments and accrued investment income	26,192	45,262
Accounts payable and accrued liabilities	(32,059)	(29,641)
	(5,867)	15,621
	$ 4,351,938	$ 3,502,053

a) Direct investments and derivative contracts are classified based on the risk exposure to the above asset mix categories. The Plan's effective net investment in global public equities includes the notional amount of global equity index swaps and futures contracts totalling $ 1,614,206 (2008: $1,060,309).

b) The sector classification conforms to the Global Industry Classification Standard followed by the MSCI World Total Return Index. The following is a summary of the Plan's investment in global markets by geographic region:

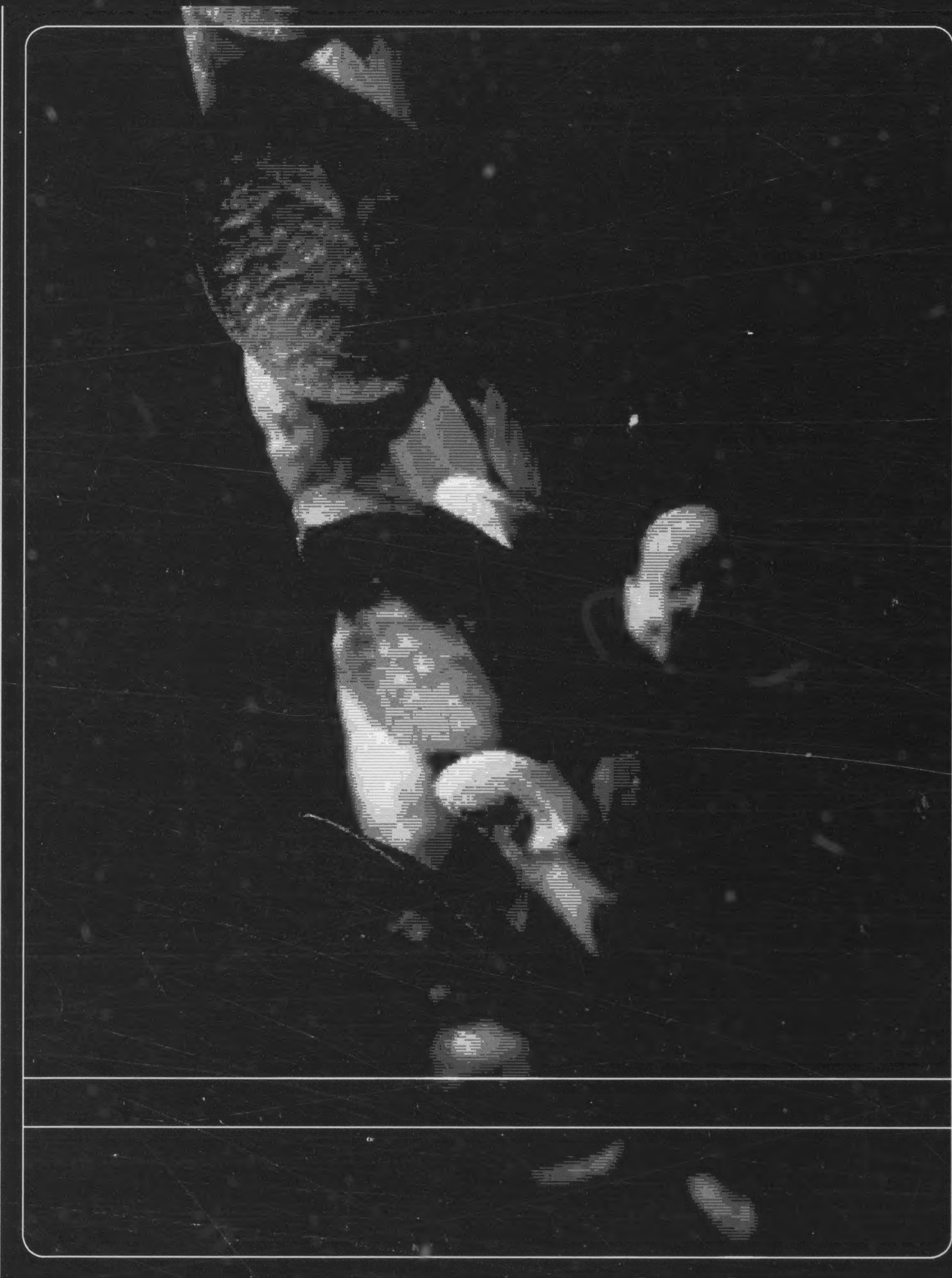
($ thousands)	Plan's Share 2009	2008
United States	$ 1,460,723	$ 1,122,234
Europe, Australasia and the Far East	2,503,886	2,219,824
Canada	183,222	-
Emerging markets	75,602	56,503
	$ 4,223,433	$ 3,398,561

Schedule D
Schedule of Investments in Real Estate

($ thousands)	Plan's Share 2009	2008
Deposits and short-term securities	$ 47,507	$ 3,575
Real estate (a)		
Office	791,860	735,532
Retail	572,609	473,067
Industrial	232,010	256,025
Residential	104,993	99,449
	1,701,472	1,564,073
Pooled investment fund	68,773	55,429
Accrued income and accounts receivable	9,978	11,195
	$ 1,827,730	$ 1,634,272

a) The following is a summary of the Plan's investment in real estate by geographic locations:

($ thousands)	Plan's Share 2009	2008
Ontario	$ 884,364	$ 801,877
Alberta	637,908	592,631
Quebec	143,177	135,737
British Columbia	36,023	33,828
	$ 1,701,472	$ 1,564,073



Local Authorities
Pension Plan